

Unaccounted Wealth may See Light of Day Via Gold Scheme

The gold monetisation scheme, the draft of which has just been unveiled by the government, may bring out unaccounted income that's held in the form of yellow metal. While the government is cracking down hard on black money, it also needs the scheme to succeed, so depositors may not be asked questions about provenance, experts suggested. Deposits under the scheme are not likely to attract wealth, income or capital gains tax but banks would have to adhere to know-your-customer norms for participants.

The draft doesn't say if depositors need to provide proof of purchase or payment of wealth tax in the past. Not requiring these will increase comfort and encourage high net worth individuals (HNIs) to make use of the scheme, experts said.

“If there are no questions asked, then the scheme would be a huge success,” said Kishore Narne, associate director, head, commodity and currency, Motilal Oswal Commodities. “HNIs would look at such comfort factors before they come forward.”

Indians are estimated to hold nearly 24,000 tonnes of gold worth nearly Rs 63 lakh crore, equivalent to half the country's current GDP. The government wants to put this passive asset, which only earns capital appreciation, to better use with the right incentives.

“If there are no questions about sources of acquisition of gold or past wealth tax payment, it would definitely increase people's interest and encourage them to come forward,” said Kuldip Kumar, leader, personal tax, PwC.

The policy that's finally implemented may be more stringent, however.

“I doubt if the government will permit such a scheme when it is cracking down on black money in a big way,” said Kumar.

Narne agreed that such a carte blanche may not be politically feasible.

TOO MANY RULES MAY HINDER SCHEME

There are also concerns that in such a situation people may buy gold to launder black money through the scheme.

The government has got a tough black money law approved by Parliament covering wealth stashed overseas by Indians. It has also moved a benami property law to curb domestic black money.

Still, too many rules could hinder the gold deposit scheme.

“The scheme would take off only if there is no incremental scrutiny from income tax (authorities) as some comfort would have to be given to depositors,” said Sunil Jain, partner, JSA & Associates. Jain said this assurance could be given to small depositors.

The department of economic affairs, which has posted the draft scheme for public comments, “is already in discussions with the revenue department on the matter“, an official said.

Under the gold deposit scheme of 1999, customers were exempted from capital gains, wealth and income tax. “Similar tax exemptions are likely to be made available to the customers in the GMS (gold monetisation scheme) after due examination,” the draft said.

The government wants the scheme to bring gold into circulation, reducing the need for imports, which have played havoc with India's finances. Restrictions had to be imposed on gold imports in 2013 after the country ran up a record current account deficit.

India imports nearly 1,000 tonnes of gold every year, more than any other country.

Turkey, faced with a high current account deficit in 2011, launched a similar scheme under which gold deposits held by banks were allowed to be treated toward statutory reserves and allowed consumers to reduce “below the pillow gold“.

(Economic Times)